

REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR

AUDIT OF THE ACCURACY OF INSIDE/OUTSIDE WATER AND SEWER CHARGES

INTERNAL AUDIT REPORT 906013-03

December 13, 2013





The Council
City of Shreveport

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December 13, 2013

Councilman Joe Shyne
Chairman, Shreveport City Council

Dear Councilman Shyne:

Subject: IAR906013-03 — Audit of the Accuracy of Inside/Outside Water and Sewer Charges

Attached please find the report mentioned above. Management comments are included in the report.

Sincerely,

Leanis L. Steward, CPA, CIA
City Internal Auditor

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EXECUTIVE SUMMARY
AUDIT OF THE ACCURACY OF INSIDE/OUTSIDE
WATER AND SEWERAGE CHARGES
INTERNAL AUDIT REPORT (IAR) 906013-03

The purpose of the executive summary is to convey in capsule form the significant issues of the audit report. The executive summary is a vehicle for reviewing the report and should only be used in conjunction with the entire report.

INTRODUCTION

We were asked by the former City Council Chairman to determine whether correct rates were charged for water and sewerage customers both outside and inside the City limits.

Also, we were asked to determine if companies located at the Port of Caddo-Bossier were being charged inside or outside rates.

RECOMMENDATION EVALUATION RISK CRITERIA

The chart below summarizes the recommendations outlined in the report and our evaluation of risk for the recommendations. The risk levels were determined based on the possible results for the entity if the recommendation is not implemented. This report contains three findings with seven recommendations.

<i>Risk Levels</i>	<i>Recommendations</i>
High Risk Possibility of fraud, waste, and abuse of City assets; Interrupted and/or disrupted operations; Entity's mission not being met; Adverse publicity.	<ul style="list-style-type: none">• Develop a verification procedure to determine if service addresses are inside or outside the City limits (Finding 1&2).• Adjust rates for those service addresses that are being overcharged or undercharged based on City ordinance (Finding 1&2).• Develop a system to identify when annexations are approved and adjust water rates accordingly (Finding 2).• Develop verification procedure to determine if future service addresses outside the City limits have been approved by the City Council to be connected to the City's Water System prior to establishing water service for customers (Finding 3).
Medium Risk Possibility of continuing, significant operating inefficiencies and high-level non-compliance issues.	None
Low Risk Possibility of continuing operating inefficiencies and some low-level non-compliance issues.	None

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AUDIT OF THE ACCURACY OF INSIDE/OUTSIDE WATER AND SEWERAGE CHARGES INTERNAL AUDIT REPORT (IAR) 906013-03

OBJECTIVES

The objective of this audit was to determine whether correct water and sewerage rates were being charged to service addresses outside and inside City limits.

SCOPE AND METHODOLOGY

We conducted this audit in accordance with generally accepted government auditing standards, except that a peer review has not been performed, and included such tests of procedures and controls as considered appropriate. We believe that the evidence obtained provides a reasonable basis for our findings, conclusions, and recommendations based on our audit objectives.

BACKGROUND

We were asked by the City Council Chairman to determine whether correct water and sewerage rates were charged for water and sewerage customers both outside and inside the City limits.

Also, we were asked to determine if companies located at the Port of Caddo-Bossier were being charged inside or outside rates. That information is located at **Appendix A**.

CONCLUSIONS/FINDINGS/RECOMMENDATIONS

The Internal Audit Office expresses appreciation to the management and personnel of the Water and Sewerage Department and Property Management Section for their cooperation and assistance. Based on our review, we have offered recommendations that may serve to improve the accuracy of the water billing system.

1. UNDERCHARGES FOR WATER AND SEWERAGE CUSTOMERS

Criteria: City Code of Ordinances, Chapter 94 "Utilities", Sections 94-164 (Water Charges) and 94-165 (Sewer Charges) specifies outside water and sewerage rates for customers located outside City of Shreveport city limits. These rates are generally double the rates charged to customers located inside the city limits.

Condition: The City has lost at least \$182,400 of water and sewerage revenue since November 2010 by undercharging (charging inside rates) 129 service addresses outside the City limits. **<Auditor's Note>** Approximately 30 of these service addresses were annexed at some point during the period, so they are currently being charged correctly.

Effect:

- As a result of the undercharged rates, the City has lost water revenue since November 2010.
- Negative publicity.



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- If the water billing system is relied upon to provide other City services (ex. garbage pickup, recycling), the City could be incurring unnecessary additional costs by providing services to residences outside the city limits.

Cause:

- The Enquesta Water Billing system currently does not earmark service addresses that are outside the City limits.
- Verification is not performed to determine whether the service address is located inside or outside the City limits when a customer requests water service. According to management, Water & Sewerage Customer Service relies upon customer statements to determine whether the service address is outside City limits.
- Four commercial addresses may have agreements with the City to be charged inside rates. However, there was not always a documented process or system to verify these special rates.
- Annexations may be contemplated for some additional areas, but have not been completed.
- Property owners believed they were inside the City limits.

Recommendations: We recommend:

1. Water and Sewerage management in coordination with the Property Management Section develop a verification procedure to determine if service addresses are outside the City limits, and obtain any documentation that supports the rate that should be charged prior to establishing water service for customers. Until a more refined system is developed, initially, this may include reviewing the property tax system to determine if an address is outside the City limits.
2. Water and Sewerage management in coordination with the Property Management Section ensure that any commercial addresses receiving special rates are properly authorized.
3. Water and Sewerage management adjust rates for those service addresses that are being undercharged based on City ordinance.

Management Plan of Action:

Response: The Enquesta billing system indicates tax status of inside or outside. Per the results from this Internal Audit, the information in Enquesta is not always accurate. From our investigation, the vast majority of the services that have been undercharged are part of a current annexation process (Norris Ferry Crossing). It appears that the customers were informed by the Owner/Developer that because the annexation paperwork is in process, they were inside City Limits and as such would receive inside City rates.

A few of the customers indicated as being outside City Limits and being charged inside City rates are actually located within the City Limits and are being charged appropriately (Savannah at the Oaks, E. Renzi Child Development Center and Village Green Townhouses).



Other customers located near the General Motors facility appear to have been assigned inside City rates. The contract with General Motors did not include other operations or companies outside of the General Motors facility. Additional research will be required to determine if there were any other agreements with these facilities. All commercial or industrial companies are required to request special rates through the Water and Sewerage Department. That request is then reviewed and if deemed appropriate, the request is submitted to City Council in the form of a resolution to allow the Mayor to sign an agreement for the special rates.

1. Water and Sewerage management will coordinate with the Property Management Section and the Engineering Department to utilize the water billing software and GIS to identify any existing service (residential, commercial or industrial) that is located outside of the City Limits and verify if the customer is being charged appropriately. The same process will be utilized to determine if an existing service is being charged at outside City rates, but should be charged at inside City rates. A separate temporary procedure will be developed for new customers going forward. This procedure will include listing zip codes that are bordering the City Limits and investigating location based on property tax information. A permanent procedure will be developed that includes improved coordination/communication regarding annexations with Property Management/Engineering.
2. Water and Sewerage management will review all water and sewer contracts with billing data to ensure appropriate rates are being charged.
3. Water and Sewerage management will update all rates and location status in Enquesta for customers found to be incorrectly applied based upon actual location inside or outside City Limits.

Timetable:

1. Determination of inside or outside City status – six weeks
2. Temporary procedure utilizing zip codes – two weeks
3. Development of permanent procedure – four weeks
4. Review of contracts – two weeks
5. Updating of rates as appropriate – two weeks after reviews

2. OVERCHARGES FOR WATER AND SEWERAGE CUSTOMERS

Criteria: City Code of Ordinances, Chapter 94 "Utilities", Sections 94-164 and 94-165 specifies inside water rates for water and sewerage customers located inside City of Shreveport city limits.

Condition: The City has overcharged \$28,000 (charged outside rates) in water and sewerage rates for 16 service addresses **inside** the City limits since November 2010.

Effect:

- Overcharges of water revenue since November 2010.
- Negative publicity.



Cause:

Some addresses were previously outside the City limits and later annexed but the rate was never changed.

- The Enquesta Water Billing system currently does not earmark service addresses that are inside the City limits.

Recommendations: We recommend:

1. In coordination with the Property Management Section, Water & Sewer management should develop a system to identify when annexations are approved and adjust water rates accordingly.
2. Water and Sewerage management in coordination with Property Management Section develop a verification procedure to determine if service addresses are inside the City limits.
3. Water and Sewerage management adjust rates for those service addresses that are being overcharged based on City ordinance.

Management Plan of Action/Timetable:

Response: While Enquesta does display tax status of inside or outside the City, this information is not always updated and accurate. This will be reviewed and updated.

See Management Plan of Action and Timetable for Item No. 1 above. These procedures and timetables will be utilized for overcharged accounts as well as undercharged accounts.

3. UNAPPROVED WATER CONNECTIONS

Criteria: City Code of Ordinances, Chapter 94 "Utilities", Section 94-9(a) "Water or sewer service **outside city**---Request for annexation" states, "As a condition precedent to the initial connection into the City water or sewer line, or both, the application for the water or sewer connection must be accompanied by a written request for annexation to the city, and approved by the City Council."

Condition: Sixty-four (about 50%) of the 129 outside water and sewerage customers identified in Finding 1 were not approved by the City Council to connect to the City's water system.

Effect:

- Unapproved water connections to City water system.
- Violation of City Ordinance.

Cause: Property owners either believed they were inside the City limits or were unaware they needed approval from the City Council.

Recommendation: We recommend Water and Sewerage management in coordination with the Property Management Section develop a verification procedure to determine if future service addresses outside the City limits have been approved by the City Council to be connected to the City's Water System prior to establishing water service for customers.



Management Plan of Action:

Response: From our review, some of the customers identified by Internal Audit as not having the proper approvals have been approved. Others are currently part of an on-going or recent annexation process and a few of the customers indicated as not approved are actually located within the City Limits and are being charged appropriately (Savannah at the Oaks, E. Renzi Child Development Center and Village Green Townhouses).

1. Water and Sewerage Management will confirm that all customers currently located outside of the City Limits have completed the proper paperwork and processes, including City Council approval for their connection. If there is no documentation, customers will be contacted by registered mail to provide the information and paperwork per the City's ordinances and procure Council approval. This will also include ensuring the appropriate annexation paperwork is in place for all customers that were not the original petitioner to the City Council (ie, when a property changes ownership). For new customers, a procedure will be developed to confirm that the proper procedures, paperwork and approvals have been completed.

Timetable:

1. Review of all outside accounts for paperwork and approvals – six weeks
2. Send letters to customers that do not have the proper paperwork and approvals – two weeks from review
3. Finalize paperwork and obtain Council approval – contingent upon customer response time.

Prepared by:

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Staff Auditor

Approved by:

Leanis L. Steward, CPA, CIA
City Internal Auditor

TF:nd

c: Mayor
CAO
City Council
Clerk of Council
City Attorney
External Auditor
Director of Water and Sewerage
Assistant to Director of Water and Sewerage



APPENDIX A

WATER RATES CHARGED AT PORT OF CADDO-BOSSIER

For companies located at the Port of Caddo-Bossier, we determined what rates were being charged. There are 2 companies at the Port that are being charged inside and/or special rates and 11 companies are being charged outside rates. The table below summarizes our results.

Companies listed on Port website	Companies charged inside and/or special rates	Companies charged outside rates	Companies couldn't locate in water billing system (charged outside rates)	Companies that have service addresses that are <u>not</u> at or near the Port.
18	2	11	3*	2**

* These companies may no longer be in business. However, the service addresses of these companies are assigned to the Caddo-Bossier Port Commission on the water billing system.

** Both of these companies have two service addresses on the water billing system. For both companies, one of the service addresses is being charged outside rates. The other service address is charged inside rates. The correct rates are being charged.